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IN THE

Supreme Court of the United States

OCTOBER TERM, 1935.

No. 758.

INTERNATIONAL BUSINESS MACHINES CORPORATION,
Appellant,

against

UNITED STATES OF AMERICA.

BRIEF FOR APPELLANT.

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INDEX.

	PAGE
Opinion Below	3
Statement of Facts	4
Key board cards in appellant's machines must be instruments of precision	4
Tabulating cards appropriate to appellant's electrically operated machines must be specially manufactured	6
Specifications of error intended to be urged	6
Summary of Argument	8
Argument:	
Point I.—Appellant's leasing of its machines, limited to use in connection with an appropriate "keyboard" card, is necessary to protect itself and its lessees against hidden errors in mechanical accounting	8
Point II.—The Trial Court erred in striking out and disregarding the patents specified and described in the agreed statement of facts	16
Point III.—The decree should be reversed and the petition in all respects save as covered by the consent decree, should be dismissed	21

Cases Cited.

	PAGE
Alemite Corporation v. *Rogers*, 5 F. Supp. 940, aff'd. 74 Fed. (2d) 1019 (cert. granted 295 U. S. 726)	21
Auto Acetylene Light Co. v. *Prest-O-Lite Co.*, 267 Fed. 537 (C. C. A. 6th Cir., Cert. denied 258 U. S. 622)	15
Carbice Corporation v. *American Patents Corporation*, 283 U. S. 27	20
Elliott Addressing Machine Co. v. *McParlan, et al.*, 80 Fed. (2d) 870 (C. C. A. 2nd Cir.)	20
Glanzer v. *Shepard*, 233 N. Y. 236	9
International Shoe Co. v. *Federal Trade Commission*, 280 U. S. 291, 298	16
Leeds & Catlin v. *Victor Talking Machine Co.*, 213 U. S. 325	19, 20
MacPherson v. *Buick Motor Co.*, 217 N. Y. 328	9
Pick Manufacturing Co. v. *General Motors Corporation*, 80 Fed. (2d) 641 (C. C. A. 7th Cir.)	13
Radio Corp. v. *Lord*, 28 Fed. (2d) 257 (C. C. A. 3rd Cir.)	15, 21
Sinclair Refining Co. v. *Federal Trade Commission*, 261 U. S. 463	11
United States v. *Am. Bell Tel. Co.*, 167 U. S., 224, 268	21
United States v. *United Shoe Machinery Co.*, 264 Fed. 138	12
Vulcan Mfg. Co. v. *Maytag Manufacturing Co.*, 73 Fed. (2d) 136, C. C. A. 8th Cir.	20

Statute Involved.

Clayton Act, Section 3 (quoted)	10

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BRIEF FOR APPELLANT.

This is an appeal by International Business Machines from a decree, entered on December 26, 1935, of the United States District Court for the Southern District of New York, enjoining as contrary to the Clayton Act, certain clauses which appellant has for many years placed in its leases of tabulating machines, requiring the use, in such machines, of tabulating cards of its manufacture (Findings 7 and 8, R. 386, 387).

The petition was originally filed by the United States of America against International Business Machines and its subsidiary and against Remington Rand and its subsidiary to declare an agreement between them of the 4th of March, 1931, void as in restraint of trade and these lease clauses (alleged in the petition as made by virtue of said agreement) violative of the Clayton Act (Petition Pars. 19 and 24, R. 5, 7).

The agreement was cancelled. Appellant has stipulated against its renewal and a decree has been stipulated in respect thereto (R. 46).

The remaining issue—whether appellant may, independently of the agreement of 4 March, 1931, use the clauses in its leases with its customers—was tried on a stipulation of facts before Woolsey, J. and resulted in the decree appealed from (R. 47).

Appellant's machines perform tabulating, recording and statistical work. Instead of manually operated key boards, which characterize the various mechanical accounting machines in competition with it (Finding 6, R. 384-386), the machines which appellant furnishes comprise (1) a *punch,* which perforates in each of a vast number of cards all the data incident to a single transaction; (2) a *sorter,* which selects out of an accumulation of such cards those which are the subject of a current investigation, (3) a *tabulator,* which ascertains and records, from the cards thus sorted, the result sought to be ascertained.

For example: a railroad having a million cards each suitably perforated with holes representing one of its freight shipments as made over a number of years and with other holes representing the amount of the charge, etc., desires to know the total freight shipped from the City of Washington. The cards are run through the *sorter,* which separates in a single group all those so punched as to be appropriate to that city; then that group is run through the *tabulator,* which accumulates on adding wheels all the amounts of the freight charges on those cards, and prints the total.

Once the card has been punched, it becomes a permanent record; but its utility is altogether dependent upon the correlation of the holes punched in it to the electrical and mechanical parts of the *sorter* and *tabulator.* Both of the latter machines are altogether dependent for their proper performance upon the *accuracy of the cards*—both as to size of card, thickness of card, material of card and proper

location of every hole in the card with respect to the edges of the card.

Thus the cards, when perforated, constitute in a practical sense, the sole operating means for both *sorter* and *tabulator;* true, both machines are caused to rotate by motors, but they do not function for their intended service until furnished with cards which become, as it were, *key boards,* rapidly operating the machines and rapidly substituted for one another.

Just as the integrity of the systems of appellant's competitors depends upon the accuracy of their key boards, so the working order of appellant's entire system depends upon the accuracy of the "key board" cards.

Appellant has developed a sorter and a tabulator which are unique in that their work is done by means of *electric contact* through perforations in cards; and has at the same time developed and specially manufactured a card appropriate for this electric contact system. There is and has been no other card on the general market or commercially manufactured appropriate for this use.

Appellant attempts to protect and maintain the integrity of its system by limiting its lessees, but only in their use of appellant's own machines, to cards of this special manufacture, realizing that a system of electrical accounting is worse than futile if hidden error is allowed to creep in.

There are various competing machines and systems upon the market as described in the findings of fact (Finding 6, R. 384-386) which do the same accounting or adding work as appellant's, in various ways.

Opinion Below.

The opinion of the District Court is (R. 380) reported in 13 Fed. Supp. 11.

STATEMENT OF FACTS.

Key Board Cards in Appellant's Machines must be Instruments of Precision.

The Court has concluded from the stipulated facts:

> "There is no question but that, in a certain sense, as counsel for the defendant has said, the cards which are used in the machines are key boards to the sorter and tabulator and, that, owing to the electrical operation of the International's machines, the cards must be approximately instruments of precision in order to insure the necessary timing in their operation" (R. 395).

The appellant by written agreement, leases machines to a large number of customers, scattered all over the country, and undertakes, at its expense to keep them in repair and satisfactory performance (Ex. d attached to stipulation of facts, R. 66).

Appellant's machines, both sorter and tabulator, are electrically operated by means of small brushes establishing electric contact through perforations in the cards as the cards are passed through the machines (Finding 3, R. 382).

The cards pass over the electric brushes of the tabulator at the rate of 150 cards a minute and the sorter operates at the rate of some 300 to 400 cards a minute (Finding 3, R. 382).

Tabulating cards for use in appellant's machines must be of almost precisely accurate dimensions and "must be free of carbon spots, or slime spots or irregularities of surface. A carbon spot in, or inaccurate dimensions of, a card may cause an erroneous and unintended electrical contact resulting in an erroneous sorting" (Finding 13, R. 389).

Finding 14 (R. 389) is:

> "When the card is passed across the electrical contacts its non-conducting character is necessary to prevent electrical contact through all save the perforations, and the operation of the tabulating machine is by virtue of the elimination of all electrical contact save the intended contacts through the perforations. Such electrical contacts through the perforations operate and control the mechanism in the statistical recording."

Finding 19 (R. 390) states:

> "International manufactures its own cards, exercises particular care in the selection of paper stock, tests all paper stock with a speck detector (photograph attached and made a part hereof), which runs all the paper over fine electrical brushes, which, on any contact through the paper, operates cutting or marking machinery to ascertain and eliminate the defective part of the paper. The paper after being tested is then cut on machinery especially devised for the purpose and printed on machinery especially devised and adapted to the purpose."

The cards must be uniform in thinness, and cut to dimension within minute tolerances. If too large, they clog; if too small the perforations are not brought in contact with the proper electric brushes (Finding 13, R. 388).

Inaccuracy in cards beyond coordinated tolerances of the machine "may produce an error in the calculation or operation performed by the machines" (Finding 21, R. 391).

During the last thirty years the intricacies, the speed of appellant's machines and the variety of the functions performed by them have increased (Finding 21, R. 390).

Tabulating Cards Appropriate to Appellant's Electrically Operating Machines must be Especially Manufactured.

Remington Rand is the only other manufacturer of card-operated tabulating machines in the United States and is the only other commercial manufacturer of tabulating cards. Its machines, however, are not electrically operated but operate mechanically by means of linkage with pins through card perforations. And the cards which Remington Rand manufactures are mechanically but not electrically appropriate for use in appellant's electrically operated machines and are not electrically tested (Finding 3, R. 382; Finding 4, R. 383, Finding 10, R. 387, Finding 22, R. 391).

Appellant has, for thirty years, manufactured its tabulating cards (Finding 9, R. 387). It sells such cards for use in connection with its machines (Finding 10, R. 387).

Finding 16 (R. 389) is:

> "The machines require for their operation a card especially manufactured. The cards used in tabulating machines have no other use, value or function, save for use in those machines."

Finding 17 (R. 389) is:

> "There are no cards on the general market manufactured for other purposes which are appropriate for use in defendant's machines."

The United States Government has manufactured some tabulating machines (Finding 2, R. 382). It manufactures some tabulating cards for its own machines as well as for appellant's machines which it leases (Finding 22, R. 391).

Specifications of Error intended to be urged.

The appellant relies upon the following specification of errors from its assignment of errors (R. 403):

1. The Court erred in directing judgment in favor of petitioner in respect of the issue tried before it.

2. The Court erred in not directing judgment in favor of the defendant in respect of the issue tried before it.

3. The Court erred in decreeing that the so-called "tying clauses" contained in defendant's outstanding leases of tabulating machines are illegal, null and void and in violation of Section 3 of the Clayton Act.

4. The Court erred in sustaining the objections of petitioner to the facts regarding patents stated in subdivision M of Paragraph 2 of the stipulation of facts, and to the copies of letters patent filed with such stipulation.

5. The Court erred in refusing to find that defendant was the owner of unexpired patents covering the tabulating machines, sorters and tabulating cards which are the subject of this suit, and the machines for manufacturing such tabulating cards.

6. The Court erred in finding that there has been or but for such so-called "tying clauses" would be competition in commerce in tabulating cards suitable for use in defendant's machines.

7. The Court erred in refusing to hold that the Government had failed to establish that there was a line of commerce affected by the so-called "tying clauses" in defendant's leases where there was no card on the market manufactured for other purposes which was appropriate for use in defendant's machines, where defendant's machines required a card specially manufactured and specially tested to prevent unintended electrical contact and where no cards were on the market manufactured by any other manufacturer which were thus electrically tested.

8. The Court erred in refusing to hold that the "tying clauses" constituted a reasonable control because, save for such "tying clauses", the cards would become in effect defective keyboards resulting in latent inaccuracy and hazard of great financial loss to all relying on the accuracy of the mechanical accounting.

9. The Court erred in refusing to find that the so-called "tying clauses" constituted a necessary protection of the good will of defendant and the reputation of its tabulating machines.

Summary of Argument.

The appellant contends:

(1) The clauses in appellant's leases are necessitated in the protection of its good will and reputation respecting the essential accuracy of its machines. The Clayton Act is not in terms or spirit violated.

(2) Appellant has patents not only on the machines, on the 80 column card, on the "speck detector" and on methods of card manufacture but patents on machine-card combination, so that any card manufactured by others for use in appellant's machines would when punched and used therein constitute a violation of appellant's patent rights.

ARGUMENT.

POINT I.

Appellant's leasing of its machines, limited to use in connection with an appropriate "keyboard" card, is necessary to protect itself and its lessees against hidden errors in mechanical accounting.

The Trial Court has concluded, from the agreed statement of facts, that the cards are, in reality, keyboards to the sorter and the tabulator, and that owing to the electrical operation of the appellant's machines, the cards must be approximately instruments of precision.

The slightest variation in the electrical resistance of the card may cause the widest variation of hidden mathematical

errors, in a result upon which may depend transactions of the utmost financial importance.

Appellant's lessees do not know, and cannot be expected to know, the intricacies and minute tolerances of the machines, necessitating peculiar manufacture and electric testing of cards, and are and will be unable to educate the local dealer in stationery to the skill and experience acquired by appellant, after thirty years of effort in card manufacture, through the perfection of patented manufacturing machinery.

Appellant's lessees, when the inevitable mistake occurs (and when it is eventually discovered) will not, without skilled investigation, be able to locate the defective cards among the hundreds of thousands they have been using, and their dissatisfaction will be visited upon the machines and upon the system. The suggestion of the trial court that the "disloyalties" of appellant's lessees in using defective cards of others' manufacture will be "transitory and the lessees will soon be safe back in the fold again" (R. 396) is unjustified by appellant's 30 years of experience in this highly competitive field of mechanical accounting.

The chief virtue of appellant's machines is their ability, with speed and accuracy, to accomplish the most intricate, involved and extensive calculations of many sorts, by electrical accounting. Appellant has a good will and a reputation to maintain in respect of the reliability, accuracy and speed, of its mechanical accounting machines, and, as well, it would also seem, (*Glanzer* v. *Shepard*, 233 N. Y. 236; *MacPherson* v. *Buick Motor Co.*, 217 N. Y. 382) an obligation toward all those who rely upon the accuracy of its machines. It should not be forced into multitudinous controversy with lessees and the public as to the cause of inaccuracies, in a domain where inaccuracies are as fatal as they are futile.

The appellant, in attempting to limit its lessees to a card of its manufacture appropriate for use in its machines, does not go beyond the necessities of the case for

the justifiable protection of its rights and the best interests of its lessees. It does not exact that its lessees (nor do the surrounding circumstances of the agreement, in practical effect, exact of appellant's lessees) any limitations on how they deal in or use the goods, wares, merchandise, machinery, supplies, or other commodities, of any other concern or person. Any lessee may use competitors' machines as well as appellant's, or may on short notice discontinue appellant's service.[1] The appellant is immediately and vitally concerned in seeing to it that its leased machines accomplish their intricate but necessarily accurate work, and cannot in any other feasible manner protect the very foundation of its business, if it allows its lessees unwittingly to frustrate the system by injecting into it an inappropriate operative element.

The Clayton Act, Section 3 (15 U. S. C. A., Sec. 14), provides:

> "*Sale, etc., on agreement not to use goods of competitor.* It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented, for use, consumption or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such con-

[1] It is a fact found by the lower Court that appellant does not restrict the customers of its other machines, such as time-recorders, which use cards for recording, from buying cards where they will, nor the customers of the machines here under consideration from buying other supplies for them on the general market (Finding 18, R. 390).

> dition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce." (October 15, 1914, C. 323, §3, 38 Stat. 731.)

In *Sinclair Refining Co.* v. *Federal Trade Commission*, 261 U. S. 463, the Sinclair Company had leased, for a nominal consideration, oil pumps, storage tanks or containers and other equipment to persons who purchased oil from them under contracts which provided that they should be used "for the sole purpose of storing and handling gasoline supplied" by Sinclair Company. This Court held (p. 473):

> "Respondent's written contract does not undertake to limit the lessee's right to use or deal in the goods of a competitor of the lessor, but leaves him free to follow his own judgment. It is not properly described by the complaint and is not within the letter of the Clayton Act."

This Court then reviewed prior cases under the Clayton Act as involving clauses which either expressly or in their practical effect prevented the lessee from using the goods or machinery of a competitor and concluded (p. 474):

> "There is no covenant in the present contract which obligates the lessee not to sell the goods of another; and its language cannot be so construed. * * * The lessee is free to buy wherever he chooses; he may freely accept and use as many pumps as he wishes and may discontinue any or all of them. He may carry on business as his judgment dictates and his means permit, save only that he cannot use the lessor's equipment for dispensing another's brand."

In regard to the reasonableness of the restriction and the motives of the lessor justifying it, this Court at p. 475 said:

> "The contract, open and fair upon its face, provides an unconstrained recipient with free receptacle and pump for storing, dispensing, advertising and pro-

> tecting the lessor's brand. The stuff is highly inflammable and *the method of handling it is important to the refiner.* He is also vitally interested in putting his brand within easy reach of consumers, *with ample assurance of its genuineness.* No purpose or power to acquire unlawful monopoly has been disclosed, and the record does not show that the probable effect of the practice will be unduly to lessen competition." (Italics ours.)

In *United States* v. *United Shoe Machinery Co.*, 264 Fed. 138, the Court held a number of tying and restrictive clauses in the Shoe Machinery leases violative of the Clayton Act, but at p. 167 held reasonable and not violative of the Clayton Act the clause which required that the lessee should obtain from the lessor exclusively "all duplicate parts, extras, *mechanisms and devices of every kind needed or used in operating,* repairing or renewing the leased machinery". The Court in regard to the validity of the clause at p. 167 said:

> "In the opinion of the court there is nothing unreasonable in this provision. The evidence shows that most, if not all, parts of these machines, are very delicate, and unless perfectly adjusted will, if not entirely, at least very seriously, *prevent the proper operations of the machine,* and in some instances prove ruinous, necessitating costly repairs, thus depriving the lessee of a full output, and the lessor of royalties. *They may also cause dissatisfaction with the machines,* owing to the decreased and unsatisfactory output. The parts furnished by the defendants are all standardized and fit perfectly, so that by replacing broken or worn-out parts with the parts made by defendants, the machines will perform the work in as satisfactory manner as a new machine." (Italics ours.)

The Government did not appeal from any part of the decree and, so far as we are informed, the Government has acquiesced in this recognition of such grounds of justi-

fication of such tying clauses until the commencement of the present litigation. And during that period the petitioner repeatedly entered into the leasing agreements with appellant of which it now complains.

The case was brought on appeal by the United Shoe Machinery Company to this Court and this Court affirmed in 258 U. S. 451, at p. 457 saying:

> "The District Court held that the United Company had the right to cancel a lease for a violation of the terms of the particular lease, but could not, without violating the act reserve the right to cancel a lease because the lessee had violated the terms of some other lease. This part of the decree must be read in the light of the circumstances shown as to the necessity of procuring shoe machinery from the United Company, and the danger of a lessee losing his ability to continue business by a forfeiture incurred from the breach of a single covenant in one lease.
>
> While the clauses enjoined do not contain specific agreements not to use the machinery of a competitor of the lessor, the practical effect of these drastic provisions is to prevent such use."

In *Pick Manufacturing Co.* v. *General Motors Corporation*, 80 Fed. (2d) 641 (C. C. A. 7th Cir.), Pick Manufacturing Company sold replacement parts for various kinds of automobiles. General Motors Corporation sold automobiles and also manufactured and sold repair and replacement parts for such automobiles, making agreements with its dealers under which each dealer agreed not to sell, offer for sale or use, in repair of Chevrolet motor vehicles, second hand or used parts or any part or parts not manufactured by or authorized by Chevrolet Motor Company, Division of General Motors Corporation.

Pick Manufacturing Company brought suit to enjoin this agreement on the ground that it violated Section 3 of the Clayton Act. General Motors Company gave its purchasers of each car a warranty against defects in material and

workmanship and claimed that the provisions of the agreement were reasonable and necessary to further and protect its business, as well as the interests of buyers of cars of its manufacture.

The District Court (as quoted in the opinion of the Circuit Court of Appeals) had held that the provision of the contract was "entirely appropriate and legitimate in carrying out the above mentioned warranties, policies or obligations of the manufacturer to customers and to others and is proper and reasonable in the furtherance and protection of its business."

The Court of Appeals pointed out (p. 643) that General Motors Corporation was not selling to competing manufacturers, and said:

> "In the minds of the owners, the cars are identified and associated with the manufacturer. If defective or inefficient repairs or replacements should be made, and the cars, as a result, should operate unsatisfactorily, the owners' recollections will naturally and inevitably revert to the specific name and manufacturer thereof. Defective parts, preventing efficient operation of cars, bring dissatisfaction with the automobiles themselves. The natural result is blame of the manufacturer and consequent loss of sales.
>
> The automobile is a complicated mechanism, the refined product of scientific engineering after long investigation, close competition, experiment, and practical experience. Replacement and repair parts must be of accurate measurement, appropriate, satisfactory material, and proper mechanical construction. Otherwise, disaster may result. Appellees insist with their dealers, therefore, that the latter shall not repair appellee's product with used or secondhand parts or with parts other than those manufactured by appellees, or for them under their specifications, for the express purpose of replacing parts in or repairing their product. These dealers may repair any make of automobile, and in doing so they may employ parts manufactured by appellant or any other independent manufacturer, provided the car being repaired is not appellees' product. The

restriction is applicable only to appellees' cars. Clearly this protects appellees against the otherwise possible use of defective parts in repairing or making replacements in their products. The preservation of the good will of the public is directly involved."

The Court then held that the reasoning of this Court in *Federal Trade Commission* v. *Sinclair,* supra, was in accord.

See also *Auto Acetylene Light Co.* v. *Prest-O-Lite Co.,* 276 Fed. 537 (C. C. A. 6th Cir., cert. denied 258 U. S. 622).

The character of the cards in association with the machines and the necessity of mathematically accurate result, as evidenced by the stipulated facts, make peculiarly applicable the salutary principle announced in the foregoing cases.

There is nothing contrary to the rule of the above cases in *Radio Corp.* v. *Lord,* 28 Fed. (2d) 257 (C. C. A. 3rd Cir.), for therein the licensing agreement restricting the licensee of radio receivers to use of licensor's radio tubes had no trade necessity or justification and the surrounding circumstances showed that restriction of competition was the purpose and effect. Where the threads of the tube-sockets of the receiving set were made to fit a standardized size of radio tube and the radio tubes of all manufacturers were made to fit the standardized thread of the set, no necessity could be urged excluding competing tubes on the general market. Inferior quality was in the domain of taste rather than in the domain of disaster.

The stipulation of facts in the case at bar indicates that the United States, having an experience of some 30 years in tabulating machines, has nevertheless found it necessary to manufacture tabulating cards for the tabulating machines it has manufactured. At any rate it has not dared risking the purchase of cards on open market, or through such course of time has found no such open market. We therefore suggest, with deference, that there is here no predom-

inant public interest necessitating the injunction and that the rule may here be applicable which was mentioned by this court in respect of section 7 of the Clayton Act, that "the public interest is not concerned in the lessening of competition, which, to begin with, is itself without real substance." (*International Shoe Co.* v. *Federal Trade Commission,* 280 U. S. 291, 298.)

POINT II.

The Trial Court erred in striking out and disregarding the patents specified and described in the agreed statement of facts.

The stipulation of facts was subject to objections as to relevancy (R. 47). The Government filed a large number of appellant's patents at the hearing and also filed objections to them and to the statements of the stipulation in regard to patents (R. 379). The Court sustained the objection and held that no question of patent law is involved (R. 382).

The stipulation of facts shows that the keyboard cards actuate sorter and tabulator, that they are not destroyed in use but are passed through the machines time and again for the classification and reclassification, addition and calculation of the data. Patents set forth in the answer and summarized in the stipulation of facts are in respect of apparatus, in combination, recording mechanism, electric circuit and record card with punched perforations moving in synchronism with the recording members which are actuated by the electric contacts through the perforations.

The appellant makes no attempt to control the use generally by its lessees of cards. They may use competing systems at their pleasure, and any one's cards in them. It is only the use of cards by its lessees in its leased machines that concerns it. After such cards have been punched in

appellant's punching machines they are sorted in its leased sorting machines, and then the leased tabulating machines utilize the sorted group of cards to determine and print the result or computation. The cards enter operatively into the functioning of the sorter and of the tabulator. The patents issued to appellant, and which are relied upon in section 15 of the answer (and whose validity is not attacked by the petitioner in its pleadings) cover the mechanical and electrical relations between the sorter and the card which is causing it to function, and between the tabulator and the card which causes it to function. The principal patents are described briefly in the stipulation (R. 53-56) and of these the following may be taken as typical:

Hollerith patent No. 1,830,699, which is upon a *tabulating machine,* contains, among others, the following claim:

> "2. In an apparatus of the character described, the combination with record-cards having groups of index points
>
> ["Index points" are described in the specification as meaning perforations.]
>
> "of a register controlled by *one group* of index points, and means concurrently controlled by *another group* of index points
>
> "of a plurality of record-cards for normally maintaining the operation of such register and for automatically discontinuing such operation when such latter index points do not correspond."

The significance of this is: The cards are arranged in groups and each card in *each* group have two sets of perforations, one relating to quantity and the other to say a freight rate. The cards pertaining to one freight rate are arranged in one group and cards relating to another freight rate are arranged in a second group and so on. The cards pass through the tabulator one by one, the machine adds up the quantity derived from each card and the machine detects the change from one freight rate to another and suspends

card feed and registering operations automatically at the end of each group.

The Lake patent No. 1,570,264 (claim 2: in stipulation R. 54) specifies the elements by which, with the perforated cards, the latter cause registering operations to be stopped as in the preceding patent and wherein after the register has been reset, registering operations are automatically resumed upon the cards of the next group.

Ford patent No. 1,741,985, on a *sorter*, contains the following, among other claims:

> "45. A card sorting machine, comprising card analyzing means, a plurality of blades forming distributing passages between them
>
> "means controlled by said analyzing means and including an analyzed card coöperating with said blades to constitute a passage opening element
>
> "to select a distributing passage for itself according to its analysis by the analyzing means."

This signifies, for example, that when it is desired to separate out of a great accumulation of cards of a railroad those which relate to the freight initiated at the City of Washington, each of such cards having a hole perforated in it which identifies that city, such card as it goes through the sorter, itself cooperates under control of the proper hole with the proper "blades" under control of the perforation to open a certain passage for itself between them so that it will go through to a pocket where all cards with that designating hole are accumulated in order to select them from the multitude of other cards.

Again, appellant has a patent upon the card itself, if it be of the peculiar character known as "80-column cards" and which by the stipulation (R. 52) constitute 72% of all of appellant's card output. That patent is Lake No. 1,772,492 (R. 56), and which claims the peculiar characteristics of the perforated card itself when adapted to the 80-column machine.

Thus it will be seen that two classes of patents deal with the card as an operating part of the machine, while the third covers the card itself. It is the fact that these cards, in the user's hands, are not fugitive elements, but are used over and over again, sorted to different perforations as required, and constitute permanent records which are analyzed and re-analyzed by the machine sometimes until they are worn out and then duplicated through reproducing machines for further use (R. 389). So far as appears, the perforated cards (subject to duplication when any may be worn out) are as durable as the mechanism of which they are a functional part whenever they are employed for their intended service. They are of no service except as component parts of the machine and any defect in them is bound to cause the mis-operation of the machine just as would a fault in the metallic parts of the machine.

The card is, we contend, as much a part of the mechanism as any the other elements claimed with it in the combinations of the first two patents adverted to; and it is just as reasonable and proper for appellant to require that its cards shall be used on its leased machines whose perfect service it guarantees, as monopolize the other parts of the mechanism which, only in combination with the cards, coöperate in the manner set forth in the machine patents, and are covered thereby.

Such, we contend, is the law of patents, as settled in this Court.

In *Leeds & Catlin* v. *Victor Talking Machine,* 213 U. S. 325, the patent consisting in a travelling tablet having a sound record formed thereon and a reproducing stylus shaped for engagement with the record and free to be vibrated by it had been held by this Court (213 U. S. at 311) to be a "true mechanical device, producing by the coöperation of its constituents the result specified and in the manner specified". The petitioner claimed the right to replace the replaceable element, namely, the sound record disc. This Court (at 332) found the solution of the question to depend

upon the application of "some rudimentary principles of patent law", held that the combination was the invention, and decided that it made no difference as to infringement or non-infringement of the combination that one of its elements or all of its elements are unpatented. The disc, though fragile, was not perishable. It was not consumed by a single use or by a few uses. Its relation to the travelling stylus was not that of product to machine (log to saw in the mill or wheat to the rollers that grind it); "it coacts with the stylus to produce the result." This Court held that the wrong was not in the sale of discs but their sale for use in the Victor machine.

In *Carbice Corporation* v. *American Patents Corporation,* 283 U. S. 27, the patent (at p. 420 held void for lack of novelty and invention) was for a refrigerating transportation package consisting of an outer container, with food substance to be refrigerated so packed as to surround a quantity of solid carbon dioxide in its separate insulating container. The patent was not for solid carbon dioxide (a substance long known to the public) nor was it for a machine or a process. American Patents and Dry Ice Corporation, its exclusive licensee (whose sole business was the manufacture of solid carbon dioxide) sued Carbice Corporation because of its sale of solid carbon dioxide to customers of Dry Ice Corporation with knowledge that it was to be used in similar transportation packages. This Court refused relief regardless of patentable invention of the transportation package on the ground that the use of patentees unpatented supplies was beyond the monopoly of the patent, stating at p. 33 that the Dry Ice Corporation had no right to be free from competition in the sale of solid carbon dioxide and holding at p. 34 that the case was "wholly unlike" *Leeds & Catlin* v. *Victor Talking Machine Co.,* 213 U. S. 325.

See also *Vulcan Mfg. Co.* v. *Maytag Manufacturing Co.,* 73 Fed. (2) 136 (C. C. A. 8th Cir.); *Elliott Addressing*

Machine Co. v. *McParlan, et al.*, 80 Fed. 2nd 870 (C. C. A. 2nd Cir.).

In *Alemite Corporation* v. *Rogers*, 5 F. Supp. 940, a combination patent was held contributorily infringed and the case of *Radio Corporation* v. *Lord*, 28 F. (2d) 257 (C. C. A. 3rd Cir.) was distinguished in respect of claimed violation of the Clayton Act. The Circuit Court of Appeals of the Third Circuit affirmed on the opinion below (74 F. (2d) 1019). This court has granted certiorari (295 U. S. 726).

The United States, a licensee of appellant in respect of the patents mentioned, does not attack them in the petition herein and, it would seem, cannot collaterally attack them in this proceeding. *United States* v. *Am. Bell Tel. Co.*, 167 U. S. 224, 268.

POINT III.

The decree should be reversed and the petition in all respects save as covered by the consent decree, should be dismissed.

Respectfully submitted,

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